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To: Downtown Rockford Project File  
From: Bridget Lane  
Subject: Downtown Rockford Action Plan Considerations  
Date: March 26, 2015



## Introduction

Downtown Rockford has a traditional urban environment and economy based on a history of strong businesses and important government and cultural institutions. It offers recreation at the Rock River's attractive parks. Although these assets provide a foundation for revitalization and there are significant reinvestments planned, the everyday businesses and activities that connect a Downtown to markets have been slow to develop. The result is high ground floor vacancy in commercial space and a tough sale for the housing development that brings 18-hour vitality. This strategic action plan seeks to guide building stronger daily vitality by identifying key markets that must be attracted to Downtown Rockford. The plan also recommends tools and techniques to accomplish that goal.

## Key Markets

Because Downtown Rockford mixes residential units, financial services, recreation, stores, and restaurants, it must appeals to a variety of markets. These markets are:

- **Community Affiliated:** Downtown Rockford's success depends on its ability to be an element of the community's character. A successfully revitalized downtown is a place that, with pride, residents bring guests to dine in independent restaurants, seek special items at unique stores, and experience community events. This relationship creates an affiliation that makes community residents an important market for Downtown Rockford. There have been notable successes in attracting this market such as the Holiday Walk, XX, and XX. Building on successful events and unique downtown businesses will continue to strengthen the relationship between this market and Downtown Rockford businesses.
- **Pedestrian:** Residents and employees within a one-half mile of commercial development are particularly intense users. The frequent trips and presence of these nearby customers adds vitality even when businesses are not open and consequently this market is more important to the success of downtown than its spending power suggests. Because these residents and employees are so noticeable, their age, income, and lifestyle defines the character of Downtown. When visitors or employees see residents jogging, pushing strollers, and walking pets, they see themselves and consider living in the area. Today's revitalized downtowns have 7,000 to 10,000 residents in their pedestrian markets and often have 10,000 to 15,000 employees. Typically those residents and employees are young and have modest incomes that they spend freely. Downtown Rockford's pedestrian markets have 3,000 to 4,500 relatively low income residents with an average age approaching 50. There are more than 9,000 employees in the combined markets. Building this market requires subsidy to the pioneers because early adopters will look to be compensated by exceptional prices or extraordinary features. The maps in Figures 1 and 2 define this walkable, character creating area for the commercial districts on each side of the Rock River.

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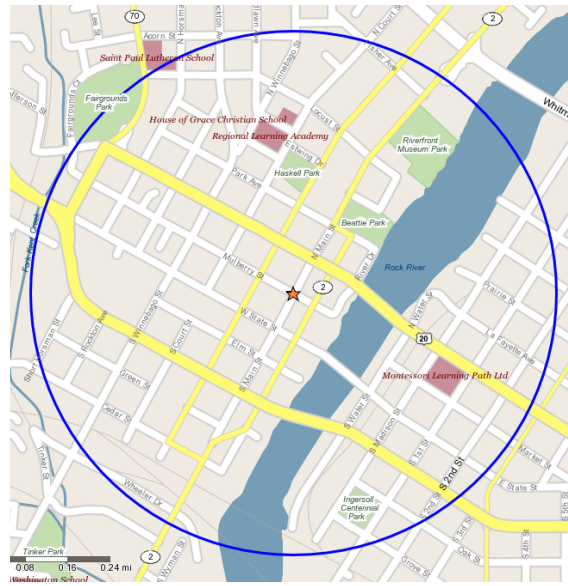
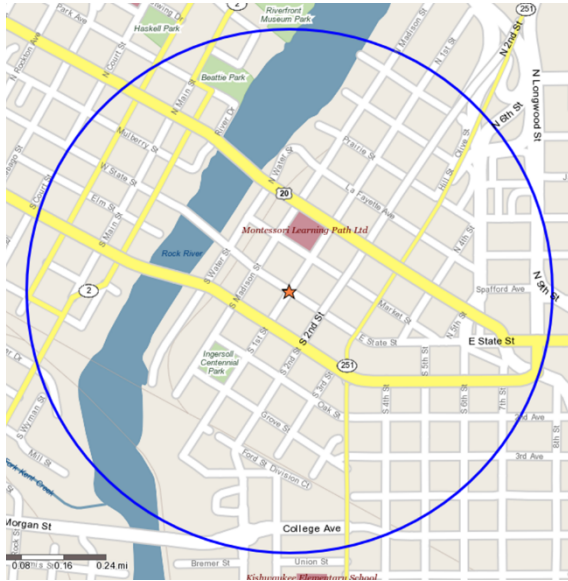


Figure 1

- Convenience (also bicycle): If one can drive to obtain needed items within five-minutes, that location can be the routine choice to meet every-day needs. Convenience shoppers are the core market for retail clusters. This primary market should provide 60% to 85% of the spending captured by its businesses. Downtown Rockford's five-minute drive time market also identifies the homes of bicyclists who can pedal to stores and restaurants in ten-minutes or less. Increasingly, that activity adds recreational users to the convenience mix. The demographics associated with Figures 3 and 4 report significantly overlapping markets of approximately 28,000 residents. This is a substantial market that contains a population that sustains neighborhood shopping anchors such as grocery stores and drug stores in center competing with Downtown Rockford.

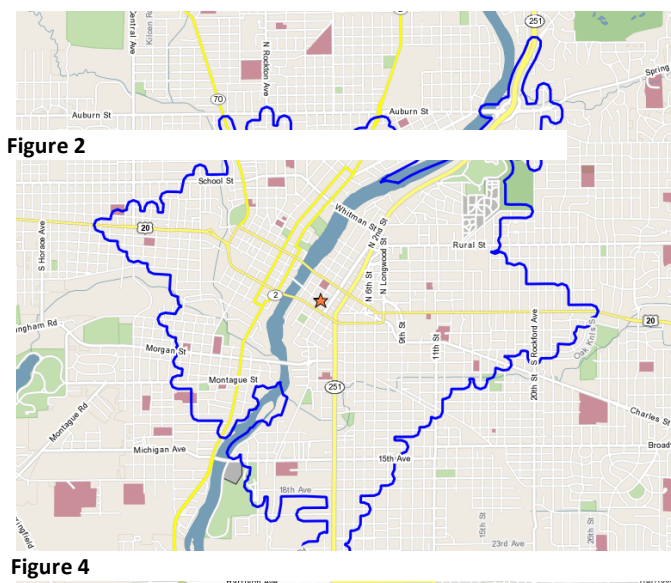


Figure 2

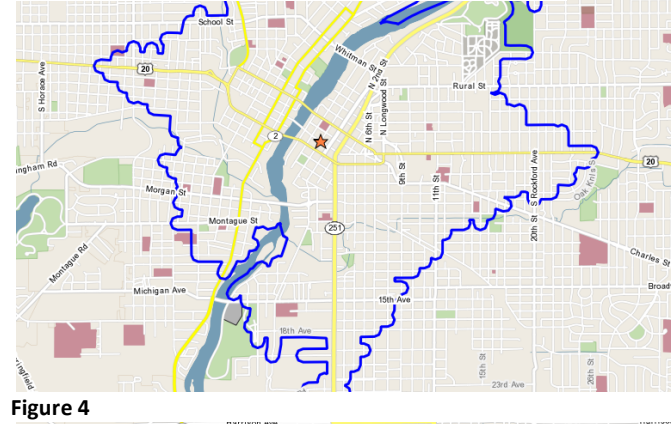


Figure 4

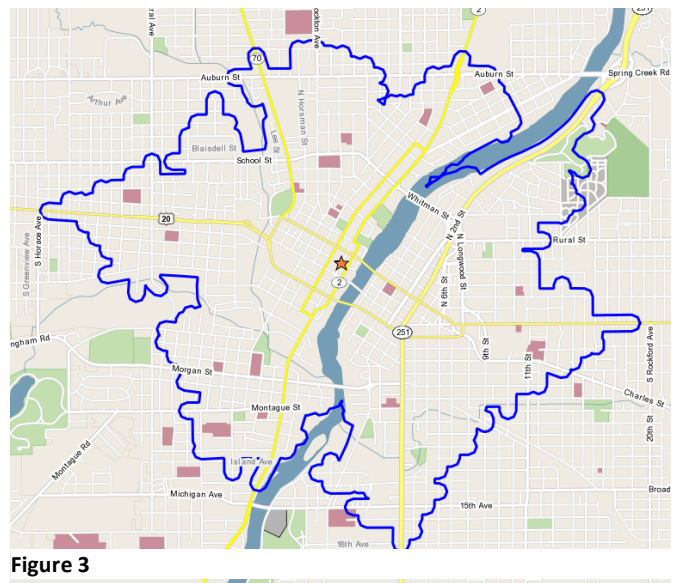


Figure 3

- Destination: The unique businesses and experiences of Downtown Rockford create a destination draw, as their offering attracts visitors from a large geography. Research conducted by Bright Star and the Urban Land Institute identify an approximately 20-minute drive time as the distance customers will travel for specialty items and experiences without extensive planning. Although some customers will travel the greater distance for unique events and venues, those visits are a bonus for businesses, while this 20-minute drive time represents a core market that can be an everyday opportunity. Households on this market are substantially higher than the income of household in the closer markets and therefore have more discretionary income for the purchase of unique specialty goods, dining, and services. This market also likely captures the homes of the employees working in Downtown Rockford, and it therefore represents potential new residents who would save time by moving to the study area.

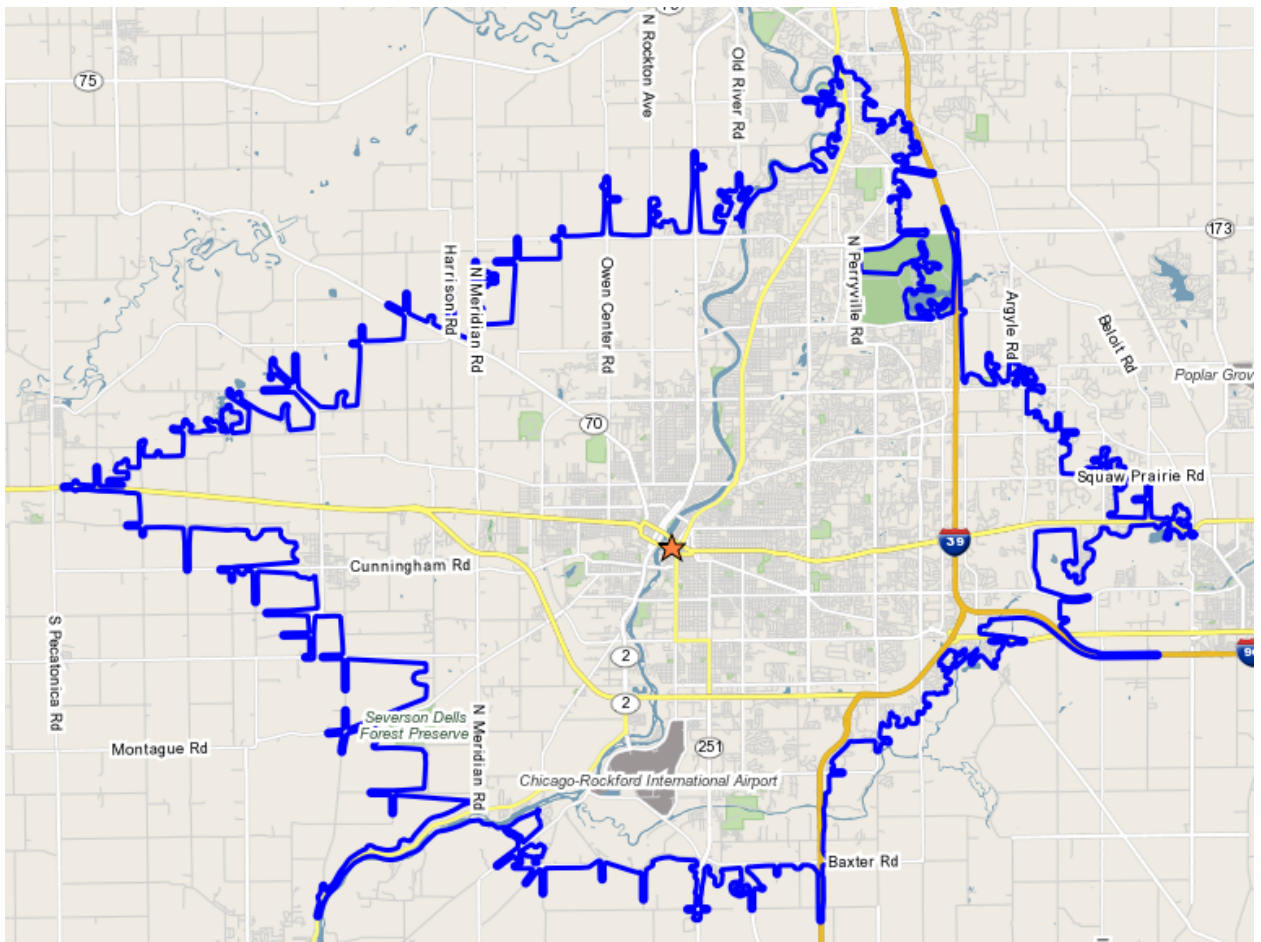


Figure 5

## Market Demographics and Spending

Table 1 reports on demographics and spending power for these markets.

	Rockford	1/2 Mile East	1/2 Mile West	5 Minutes Drive East	5 Minutes Drive West	20 Minutes Drive
Total Population	150,784	2,447	3,538	27,819	28,192	241,356
Population Density per Square Mile	2,429	3,109	4,496	4,557	4,895	1,203
Total Households	59,096	1,431	1,451	11,005	10,713	95,179
Employees		7,010	6,831	17,370	16,257	
Median Age:	36.5	47.8	41.0	32.5	32.0	38.4
Average Household Income	\$57,807	\$22,612	\$22,670	\$39,620	\$38,777	\$62,610
Median Household Income	\$40,035	\$13,238	\$13,427	\$25,329	\$24,701	\$46,203
Per Capita Income	\$23,000	\$13,394	\$10,591	\$16,366	\$15,436	\$24,929
Foodservice & Drinking Places	\$141,576,512	\$1,949,636	\$1,843,252	\$20,860,613	\$19,524,384	\$248,886,766
Square feet supported at \$300 per	471,922	6,499	6,144	69,535	65,081	829,623
Total Aggregate Annual Retail Demand	\$1.3 Billion	\$21 Million	\$21 Million	\$206 Million	\$197 Million	\$2.2 Billion
Square feet supported at \$300 per	4,344,583	70,240	71,122	688,368	657,671	7,428,759
5% capture of market supported space						371,438

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The spending power estimates demonstrate that connecting to these markets can support additional Downtown Rockford stores, restaurants, and services. Arbitrarily setting a goal of attracting 5% of the spending within the 20-minute drive time and using the national average for sales per square foot (\$300) suggests a goal approximately 375,000 square feet of ground floor spaces occupied by those businesses. Currently, occupied ground floor space in the project is estimated at 175,000 square feet. That implies that meeting the 5% capture goal would add approximately 200,000 square feet of ground floor customer oriented businesses. That space would accommodate 70 to 100 businesses depending on their size.

## Summary

At its core revitalization depends on strong connections to the market that provide customers and residents for existing and future development. Concurrent with the exciting new developments in Downtown Rockford, efforts to strengthen the Downtown's core markets must occur. Festivals, events, and improved Rock River frontage have been effectively creating community pride and thereby attracting the Rockford market. Improving the character market within one-half mile requires a transformation effort to add housing and jobs because the current market falls so short of the markets that support vital downtowns. For the important convenience and destination markets, the challenge is bringing a message that attracts the adequate existing market. The obstacle to overcoming that challenge is the high costs and limited resources of government. Facing that impediment requires understanding the economics of market rate development that could shift the financing burden from municipal resources to private resources. An element of that approach is using relatively inexpensive concept of tactical interventions to test and improve the market. That technique reduces the risk associated with market rate development and thereby reduces the need for government financing. Sections follow that define those concepts.

## Redevelopment Possibilities

Before considering specific Downtown Rockford projects and the necessary public private partnership to achieve those projects, one must understand local market rate development. The sample market rate projects estimated in Table 1 are:

- a new one-story 5,000 square foot restaurant,
- a three-story residential multi-family building that delivers 43 units on a 15,000 square foot floor plate,
- a \$50 per square foot remodeling project for a 10,000 square foot building.

These projects have costs ranging from \$500,000 to \$7 million. For these investments in the Downtown Rockford area to occur, the property owner must attract tenants or buyers willing to pay rents or prices high enough to provide a return higher or equal to alternative uses of investor funds, which is the condition known as market rate development. If investors are not confident that rents or sales prices will be competitive with other investment alternatives, a developer may choose either to find another place to invest funds or request a public/ private financial partnerships to fill the “gap” between expected returns and market rate returns. The framework for that partnership is a shared understanding of typical development costs.

For this framework, these projects are not associated with specific properties. In many revitalization programs, the first partnership properties are publicly owned lots and buildings, and a primary goal is placing them back on the property tax rolls to generate revenue that can support additional revitalization efforts.

## Methodology

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To determine the advantages and disadvantages of development options, this development feasibility analysis calculates project financial feasibility by comparing project costs to the value of resulting development. The revenue to the City comes from property taxes and sales taxes. Table 1 explains how this information is calculated:

**Table 1**

Building and Parking Construction Cost	Total Value	Rent	Annual Property taxes	Annual Municipal Sales Taxes
Using a standard estimating service that continuously monitors construction costs, RSMeans, a very preliminary cost estimate for the concept's proposed uses and parking is calculated. Following detailed design, this component can change significantly.	The net operating income from a commercial development or apartments sets its value. That income is converted to a market value by determining how much the developer would invest to obtain that income. The return that developers require varies by the market demand for each use.	The rent is the net operating income required to provide the return on investment that the market expects for the risk involved in the project plus management costs. For ease of comparison it is expressed as an amount per square foot for commercial uses and a monthly rent for apartments.	This calculation uses a common realtor rule of thumb that property taxes are approximately 2% of the property value. In a TIF, these property taxes estimate the potential TIF increment.	In Illinois, each municipality receives 1% of the value of retail sales by businesses within their borders. The City of Rockford levies another 0.5% retail sales tax. This calculation assumes that new retail will achieve sales of \$300 per square foot, the national average.

The key to this analysis is setting the developer's required return as determined by the risk associated with undertaking proposed development options. The least risky projects are built to suit concepts for large, national corporations and the low cost reuse of existing buildings. The riskiest projects are speculative commercial development. Each project uses a combination of investor funds and bank loans to determine the return on investment (ROI) needed to appeal to the market. With today's relatively low bank interest rates, the blended ROI, also known as a cap rate, varies from about 6.5% for the least risky projects to 9.5% for the riskier projects. When a riskier project is more desirable, the City can intervene with financial incentives that reduce costs to a level that matches other investment possibilities. The risk return used in this analysis and other assumptions are documented in Table 2.

**Table 2**

Surface Parking per space	\$6,000
Covered Parking per space	\$13,000
Garage Parking per space	\$23,000
Apartment ROI	7.5%
Commercial ROI	9.0%
Floor Utilization	85%
Estimated Property Tax	2% of value
Taxable Sales per sqft	\$300

These assumptions are based on BDI experience and interviews with developers. At this conceptual design level, values can change significantly, as design is refined and infrastructure conditions are better understood.

### Sample Investment Templates

Table 3 examines investment options for the three hypothetical projects. The bold rows illustrate the rents new tenants would pay if these concepts were developed without land costs or incentives.

**Table 3**

	Rehab	Restaurant	Multi-Family
Project	\$50 per square foot improvement	Single story building with enhanced landscaping but no dedicated parking	43 units averaging 900 square feet. 3-stories and Provides 1 parking space per unit
Lot size	20,000	20,000	20,000
Space	10,000	5,000	45,000
Construction Costs	\$500,000	\$1,055,500	\$6,797,500
Covered Residential Parking			\$ 608,520
Market Driven Net Operating Income (NOI)	\$45,000	\$94,995	\$555,452
<b>Rent per sqft that provides market driven NOI (10% added for land costs)</b>	<b>add \$5.29 to current rent</b>	<b>\$24.50</b>	
<b>Monthly rent (average unit per month)</b>			<b>\$1.61(\$1,450)</b>
Annual Sales Tax	\$45,000	\$22,500	
Annual Property Tax	\$10,000	\$21,110	\$135,950

With current Downtown Rockford rents ranging from \$9 to \$14 per square foot, restaurant tenants would choose redevelopment only if the resulting space is likely to generate higher sales than space in existing vintage properties. Investors considering building multi-family residential must be confident that tenants will pay the premium rents now only associated with competing more suburban style properties. If a commercial property currently rents on the low end of vintage market rate costs per square foot, \$9, a \$50 per square foot remodeling could create space renting on the high end of market rate vintage rents, \$14.

### Summary

Although remodeling can work for properties that are currently vacant or leased at low rates, redeveloping underutilized Downtown Rockford area properties will not occur without public private partnerships or tactical interventions that improve the market.

### Staging with Tactical Interventions

The model of multistory, mixed use development that replicates classic downtown environments like Downtown Rockford, can find attracting investors very difficult because these projects are very expensive to build and finding credit worthy tenants is uncertain. One way to reduce the risk is to prove the market quality through tactical interventions that test opportunities and consequently lower risk.

These interventions add vitality during the time when opportunities develop. In the publication Tactical Urbanism 2, this approach is described:

“While larger scale efforts do have their place, incremental, small-scale improvements are increasingly seen as a way to stage more substantial investments. This approach allows a host of local actors to test new concepts before making substantial political and financial commitments...

While exhibiting several overlapping characteristics, “tactical urbanism,” is a deliberate approach to city-making that features the following five characteristics:

- A deliberate, phased approach to instigating change;
- An offering of local ideas for local planning challenges;
- Short-term commitment and realistic expectations;
- Low-risks, with a possibly a high reward; and
- The development of social capital between citizens, and the building of organizational capacity between public/private institutions, non-profit/Non-Government Organizations, and their constituents.”

Tactical Urbanism could create immediate change and potentially prove the market strength of the Downtown Rockford area. Those market improvements that could reduce the need for public incentives include:

- Park(ing) Day. The concept is testing the benefit of plazas that are the size of parking spaces. It is an international movement that is always scheduled for the third Friday in September. By participating, Downtown Rockford could garner publicity and test, adding plazas as a development amenity. This tactical intervention invites the community to identify plaza locations and can relieve business fears about the trade-off between open space and parking. The publicity and involvement of groups creating the “plazas” invites visits to Downtown. More information on this tactical intervention is available at <http://parkingday.org/participate/>
- Pop-up Retail. Temporary stores have grown from a holiday focused use into an important technique for proving that customers will travel to a developing marketplace. Downtowns’ vacant store fronts, oversized parking lots, and underutilized public spaces are increasingly being used as local incubators for a seemingly endless number of temporary to permanent commercial and community uses. These spaces can be simply finished store fronts or very modest structures that share facilities with adjacent buildings. Entrepreneurs can lease spaces for periods ranging from weeks to few months. The location benefits from a changing uses that attract destination customers and the tenants can test concepts with a minimal upfront investment. The goal is incubating businesses that are especially well tuned to the local market and will be successful from day one.



- **Food Carts / Trucks.** Street food is a magnet for human activity. Food carts and trucks both stimulate entrepreneurial activity and activate a public space. Today's food vendors are masters of social media and attract followers from other communities by creating a festival atmosphere. A good food vendor, or groups of vendors, quickly becomes an additional destination within already successful places of congregation. City regulations prohibiting the sale of alcohol and limiting the time when food vendors are active add customers to nearby, permanent businesses.
- **Site Pre-Vitalization.** When temporary buildings re-activate a previously inactive or underutilized parcel of land, it can help to market the property and generate needed revenue for the land owner/developer. Site pre-vitalization uses often include public markets, art exhibitions and studios, community festivals, beer gardens, micro-retail opportunities, flea markets, and other temporary programs capable of "pre-vitalizing" a site before more permanent building is possible. By activating a site during the planning, approvals, and financing stages, a vacant site can provide low-cost community building and economic opportunities while a more formal transition occurs, from inactive parcel of land to a fully redeveloped and programmed addition to the town or city.
- **Micro-Mixing.** When a business owner subleases space to a complimentary business, it is known as micro-mixing. The bookstores that include a coffee shop illustrate the concept of micro-mixing. The two uses together, a latte and a new book, fit together naturally. Today, more mixes are emerging. Barbershops are selling clothing, jewelry stores are selling sandwiches, and a coffee shop is selling potted plants and gardening supplies. This tactic provides entrepreneurial shop owners an opportunity to mitigate the high overhead costs associated with opening a new venture. By using clever merchandising and efficient space planning, existing retail spaces can be adapted to handle multiple users or businesses. Thus, micro-mixing provides an opportunity to test new ideas. If successful, micro-mixing tenants can one day strike out on their own.



## Summary

When businesses have well tested concepts, the owners have the confidence to commit to the higher rents and longer-term leases necessary to support building transformational space. Tactical Urbanism tests concepts as it creates events that differentiate a downtown from shopping centers and attract customer and investor interest. The community challenge is creating a regulatory environment that allows temporary uses. As this analysis looks at specific sites, it will suggest tactical intervention that could prove the site's quality and thereby interest investors in more permanent development.

## Strategic Tools and Techniques

For Rockford to build the connections to necessary markets, leadership must focus on a strategy organized around goals and objectives designed to methodically achieve that vision. This plan then identifies the tools and techniques that must be used to move the strategy forward.

The market strategy is guided by this vision:

By 2020, Downtown Rockford will be a commercial center that residents speak of with pride and consumers within a 20-minute drive time visit often for unique experiences and products.

The changes necessary to achieve that vision are captured in these goals:

1. Fill 200,000 square feet of ground floor study area space
2. Exponentially grow the housing market
3. Establish Downtown Rockford as the community's "master brand."

These goals focus on the inner ring character market of Downtown Rockford as the key to realizing the vision. Although they are aggressive, they can be broken down into planning, tactical, lean and climax objectives that illustrate a five-year plan that progresses toward attaining the goals.

Objectives: Fill 200,000 square feet of ground floor study area space

1. Plan: Reach consensus on the 16 block first stage clusters on the East and West side of the Rock River and center four block immediate action centers.
2. Tactical: Promote Pop-up Retail, Food Trucks, micro-businesses, and temporary office uses as tactical interventions to test concept viability in the immediate action blocks.
3. Lean: Grow by five businesses in existing space on each side of the River year 1, 10 businesses year two and 20 businesses in year 3-5. (If the businesses average 1,400 this will fill more than 200,000 square feet)
4. Climax: Build new space as needed but do not include consumer oriented ground floors outside of the target areas.

Objectives: Exponentially grow the housing market

1. Plan: Identify and tout a 35 to 50 unit project that offers a unique amenity—probably river access.
2. Plan: Identify incentives that only work for early adopter—River Edge was this but is now gone.
3. Tactical: Demonstrate how well downtown works for activities of daily living—jogging, grocery shopping, biking, and dog walking.
4. Lean: Remodel upper story space for 60 residential units per year.
5. Climax: Identify projects outside of the study area but within the ½ mile character district that can be built/sold in chunks of 30 to 40 units.

Objectives: Establish Downtown Rockford as the community's "master brand."

1. Plan: Identify Downtown places for that can host major community events
2. Manage growth do not stop decline...
3. Tactical: Sell Downtown as an event location to all Rockford organizations.
4. Lean: Develop "brand Identity" used by all organizations promoting Downtown Rockford